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FM AMEMBASSY LIMA  
TO RUEHC/SECSTATE WASHDC 1346  
INFO RUEHBO/AMEMBASSY BOGOTA 3640  
RUEHQT/AMEMBASSY QUITO 0525  
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RUEHCV/AMEMBASSY CARACAS 9662  
RUEHBU/AMEMBASSY BUENOS AIRES 2512  
RUCPDO/DEPT OF COMMERCE WASHINGTON DC  
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RUEHRC/DEPT OF AGRICULTURE WASHINGTON DC  
RUMIAAA/USSOUTHCOM MIAMI FL  
RHEHAAA/NATIONAL SECURITY COUNCIL WASHINGTON DC  
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DEPT FOR WHA/AND, WHA/EPSC, EB/ESC/IEC/EPC  
TREASURY FOR OASIA/INL  
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SUBJECT: PERU PRIVATIZES PORT OF CALLAO

¶1. (U) Summary. Following up on a pledge to improve services at Lima's Port of Callao, the GOP on June 23 granted to firm P&O Dover a contract to build a new container terminal. Total cost of the project is estimated at \$617 million over the next six years. P&O, along with its Peruvian partner, Uniport, pledged to reduce rates and invest an additional \$144 million to improve the port's operations. Improved services at the Port of Callao, Peru's largest container port, will enable to Peru to increase imports and exports while becoming more competitive with other regional ports. End Summary.

#### Privatization of New Container Terminal

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¶2. (U) The Port of Callao, located at the edge of Lima, is Peru's busiest port, handling more than 880,000 TEUs (twenty-foot containers) annually. Due to its central location, Callao also processes more than 85 percent of Peru's container traffic. It is the fastest growing container port on the west coast of South America, with an annual growth rate of over 14 percent since 2000. Despite its fast growth, due primarily to the exponential increase of Peruvian exports under the Andean Trade Promotion and Drug Eradication Act (ATPDEA), many businesses complain about the inefficiency and costliness of the port. Callao does not have permanent cranes on the docks; instead, ships coming to port must have their own cranes. Callao's costs are some of the highest in the region, at \$400 per twenty-foot container.

¶3. (U) The Peruvian Government has long talked of privatization as a way to reduce costs at Callao, although several port entities opposed the proposal. In May, ProInversion (the GOP Privatization Agency) offered a tender to build a new terminal at Callao's Southern Pier (Muelle Sur). A new terminal, complete with installation of permanent cranes, would expand Callao's port facilities 2,000 feet further out to sea and would allow larger ships to dock at the port. The project also includes dredging the port area to increase depth to 16 meters. According to ProInversion, the new terminal would increase the Port of Callao's capacity to more than 2 million TEUs, a 100 percent increase over current capacity. Overall investment in the project could total as much as \$617 million over the next six years.

¶4. (U) Four consortiums bid on the project, with ProInversion

granting British-owned P&O Dover, along with its Peruvian partner Uniport, the contract on June 23. (Note: P&O Dover/Dubai World Ports is the world's second largest port operator, with two other ports in South America: Puerto Cabello in Venezuela and Port of Buenos Aires in Argentina. End Note. ) In its winning bid, P&O Dover offered rates of \$90 for twenty-foot containers and \$135 for forty-foot containers, while also pledging to invest an additional \$144 million in projects to improve the overall operation of the Port of Callao. P&O expects that the new port facility will be operational by 2009. The concession contract lasts ten years; after that, the facilities revert back to the Government of Peru.

#### Benefits of the New Port

15. (SBU) The Ministry of Transportation predicts that, once the project is completed, Callao's port costs will drop by \$200 million, making it more competitive with Valparaiso and other ports on South America's west coast. With lower costs per container movement, the Peruvian Government hopes to increase both imports into and exports from Peru, as well as container traffic from third countries. The project should also create new up to 400 new jobs annually, enabling the port to improve its overall efficiency while meeting its customs obligations under the U.S.-Peru free trade agreement.

#### Comment

16. (SBU) Peru's exports and imports have increased dramatically in the past few years; this trend is expected to continue, particularly once the U.S.-Peru FTA takes effect. The GOP expects exports in 2006 to total more than \$20 billion, an increase of 17 percent since 2005. The Port of Callao desperately needs an upgrade, as it is currently working near capacity and is labeled one of the most inefficient ports in South America. This concession is an important step in the implementation of the U.S.-Peru free trade agreement and will make Peru more competitive.

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